ZIMBABWE

TRADE SUMMARY

In 1999, the U.S. trade deficit with Zimbabwe was $73 million, an increase of $39 million from 1998. U.S. merchandise exports to Zimbabwe totaled $60 million, a decrease of $33 million from 1998. Zimbabwe was the United States' 124th largest export market in 1999. U.S. merchandise imports from Zimbabwe were $133 million, up $6 million from 1998. The stock of U.S. foreign direct investment in Zimbabwe was estimated at $103 million in 1998.

IMPORT POLICIES

Zimbabwe's economy, including its tariff regime, began a transition in 1991 from a highly controlled, Marxist-modeled, statist system to a more open, market-based economic system. During the first phase of its structural adjustment program, which ended in 1995, Zimbabwe abolished quantitative restrictions in favor of a tariff-based trading system. In early 1996, Zimbabwe undertook a comprehensive review and rationalization of its tariff policies and rates with substantial World Bank input and the cooperation of the Confederation of Zimbabwe Industries (CZI). A new tariff regime, effective March 1, 1997, lowered duties on raw materials and other inputs in an effort to remove most cases of the previous anomaly where there were higher duties on raw materials than on finished products. Raw materials now incur a duty rate of five percent to fifteen percent, though additional import surcharges are very likely to be applied.

In response to the significant slide of the Zimbabwe dollar against foreign currencies which began in August 1998, the Ministry of Finance announced on September 25, 1998, an increase in import tariffs ranging from 20 percent to 100 percent. Generally, higher duties are applied to luxury items and to items for which domestically produced substitutes exist. The list of targeted goods includes furniture, bicycles, motor vehicles, electrical and electronic goods, shoes, carpets and building materials. At the urging of the World Bank and the IMF, however, the Tariff Commission announced a rollback schedule for these higher duties to have commenced in January 2000. In early January, the Ministry of Finance announced the suspension of the announced reductions, citing fear of revenue loss. Industry has protested this reversal and, at this time, the outcome of the proposed rollback is uncertain.

Examples of the new tariffs and duties (along with previous tariff levels), drawn from the Customs and Excise Amendment Notice Number 12 of 1998, include the following:

- Duty on edible vegetables was increased from the previous level of 40-60 percent to 60-80 percent;
- Duty on edible fruits as well as coffee and tea was similarly increased to 60-80 percent;
- Duty on cereal flours was increased from 30 percent to 60 percent;
- Duty on prepared cereals was increased from 40 percent to 80 percent;
- Duty on fruit flavored and aerated water was set at 85 percent and 82.5 percent, respectively, and an excise duty was set at ZIM $10 per liter (about U.S. 25 cents at current exchange rates) and 22.5 percent, respectively;
- Duty on imported wines was set at 95 percent and an excise tax was set at ZIM $2.5 per liter (about U.S. 7 cents at current exchange rates);
- Duty on cigarettes was set at 100 percent and an excise tax was set at 80 percent;

- Duty on perfume was increased from 40 percent to 80 percent;
- Duty on footwear was increased from 30 percent to 65 percent;
- Duty on ceramic products was increased from 40 percent to 80 percent;
- Duty on pearls and precious and semiprecious stones was increased from 15 percent to 70 percent;
- Air-conditioning units, previously duty-free, are now charged 40 percent to 90 percent duty as well as a surcharge of ZIM $200 per unit;
- Duty on electric stoves was increased from 40 percent to 90 percent;
- Duty on passenger motor vehicles (buses) seating 20 or more persons was increased from 25 percent to 50 percent duty, while duty on vehicles seating 19 or less (minibuses) was increased from 40 percent to 80 percent;
- Duty on toys was increased from 30 percent to 70 percent; and
- Duty on plastic or wooden furniture was increased from 40 percent to 80 percent.

Duties on what are considered luxury goods that can be manufactured locally were increased on average by 100 percent. A commission has been formed to look at cases where local manufacturers have been disadvantaged by the new tariff regime. The commission meets monthly and has a large and growing backlog.

Effective on October 2, 1998, all tariffs on imported goods have been charged a 15 percent import surcharge, regardless of classification. A narrow exemption from the tax exists for capital goods, such as manufacturing equipment and intermediate goods that are employed in processing for re-export.

Periodic instances of corruption and a lack of uniform application of the law by customs officials continue to concern importers and users of imported goods or components.

GOVERNMENT PROCUREMENT

Zimbabwean law provides for non-discriminatory government procurement practices, including full transparency in the tender process. The Government of Zimbabwe's Tender Board is required to invite bids form both local and international entities for any purchase in excess of ZIM$800,000 (U.S.$21,000). Notwithstanding, U.S. firms and various national governments, including those of the United States, Japan, Great Britain, France, Belgium, and Italy, have voiced strong complaints about the lack of transparency and fairness in government tenders. Multilateral institutions have also criticized the government tendering process and called for changes. Zimbabwe is not a signatory to the WTO Agreement on Government Procurement.

In two prominent tenders, the contract awards were based on factors other than cost, resulting in local suppliers being accepted over foreign suppliers with substantially lower bids. Despite the board's requirement to invite tenders for any project in excess of the ZIM$800,000 threshold, Zimbabwe continues to use sole-sourcing for a number of major contracts, in particular purchases by the Ministry of Defense and contracts with the Rreserve Bank of Zimbabwe to print paper money and mint coins.

In an effort to encourage indigenous businesses, Zimbabwe maintains quotas on certain services and products to be filled only by Zimbabwean firms.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Zimbabwe has joined several international patent and trademark conventions since achieving independence in 1980. It is a member of the World Intellectual Property Organization (WIPO), the Paris convention for the Protection of Industrial Property (Stockholm text), and the Berne Convention for the Protection of Literary and Artistic works (Rome text). Zimbabwe is obligated to implement the substantive and enforcement provisions of the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and has made a series of amendments to existing IP laws to meet its TRIPS obligations. Notwithstanding, Zimbabwe still has not updated its IPR legislation nor has it ratified the WIPO treaties. In mid-1998, the government presented WIPO copyright treaties to Parliament, proposing their ratification as amendments to existing IPR legislation. No action has yet been taken.

Audio and video cassette piracy is the most widespread enforcement problem in Zimbabwe, though the volumes involved have been relatively small. While software bootlegging by computer users undoubtedly occurs, bootlegged software is rarely sold commercially.

SERVICES BARRIERS

At the IMF's urging, the ban on local foreign currency-denominated bank accounts (known as FCA's) was lifted in October 1999. However, in December 1999 the Reserve Bank of Zimbabwe directed that half of all FCA balances be liquidated as part of an effort to address the hard currency shortage in the country. The prospect of continued foreign currency shortages raises the possibility that additional controls or restrictions may be placed on such accounts, making operations more difficult for importers and exporters.

World-class professional services (consultancy, accounting, legal, and others) are generally available within Zimbabwe. Professionals face the same restrictions on expatriate hires as do other industries, i.e., chronic protracted delays and a lack of transparency in approving work permits for expatriate representatives of overseas firms.

In 1999, some software companies encountered difficulties with the importation of programs containing extensive graphics, as Zimbabwean Customs judged them to be entertainment programs subject to 80 percent duty rather than the 15 percent duty that is charged on computer software. There are currently no trade restrictions on electronic commerce.

INVESTMENT BARRIERS

The government has lifted some of its most onerous restrictions on foreign investment. It permits pre-independence investors to remit 100 percent of declared dividends and no longer imposes restrictions on local borrowing. In September 1995, the Reserve Bank of Zimbabwe began liberalizing blocked accounts, allowing repatriation of certain blocked funds (profits and dividends accrued on pre-1993 investments, corporate funds invested in Government of Zimbabwe external bonds, and accounts with authorized dealers). Due to Zimbabwe's ongoing financial crisis, there is serious concern that the government may resort to a reimposition of foreign exchange restrictions or a formal, fixed rate foreign exchange regime.

Zimbabwe has signed investment agreements with the Overseas Private Investment Corporation (OPIC) and the World Bank (MIGA). Notwithstanding such commitments, the government has yet to embrace the concept of national treatment or reduce the length of its "reserved list" of sectors that remain closed to all but domestic investors and those foreign investors who operate joint ventures with local partners.

Roadblocks to foreign investment are omnipresent. Foreign-owned businesses have cited instances of corruption as a troublesome aspect of doing business in Zimbabwe, particularly at the startup, expansion, or transfer of assets stages. Both new and existing investors have encountered delay and lack of transparency in obtaining investment approval from the Reserve Bank of Zimbabwe. There have also been protracted delays and a lack of transparency on the part of the government in approving work permits for expatriate representatives of overseas firms. Applicants have described the process as difficult, time-consuming, and at times arbitrary. In one example, a senior executive of a major U.S. corporation was denied renewal of his work permit on the basis of his age (63). The U.S. Embassy has had some recent success in obtaining favorable results in such cases.

Investment Promotion

As part of its effort to promote investment, the government established the Zimbabwe Investment Center (ZIC) and abolished import licensing requirements. The poor macroeconomic environment that currently exists in Zimbabwe, however, presents quite a challenge to ZIC. Harsh economic conditions and uncertainty have caused a 63 percent slide in approved investment applications in 1999, from ZIM $60.3 billion to ZIM $22.5 billion (about U.S. $590 million at current rates). Actual investment in any given year is considerably less than what may be indicated by approved investment applications.

Export Processing Zones (EPZ) and certain related tax concessions could boost foreign investment, but a number of factors have limited their success. Benefits include a five-year tax holiday, duty-free importation of raw materials, no tax liability from capital gains arising for the sale of property forming part of the investment in designated processing zones, and duty-free importation of capital equipment for use in the EPZ. A trade performance mandate requires eligible companies to export at least 80 percent of output. The EPZ authority, operational since early 1996, has approved applications for 105 companies to operate in more than a dozen zones. Just over half of these projects are up and running, with the others slowed or halted by the economic downturn that is being driven by high inflation and high interest rates. The new entities are also encountering difficulties in connecting to telecommunications services as well as water and electric utilities. Problems have and continue to arise with the Department of Customs, which frequently charges designated companies duties on exempted inputs and equipment.

Exporters of manufactured products will be able to take advantage of new tax incentives included in the 1999 budget. Companies exporting at least 40 percent of their output qualify for an eight percent tax break, while new companies exporting at least 50 percent qualify for a 10 percent tax break.

OTHER BARRIERS

Land Reform

The redistribution of large commercial farms to landless and small-scale black farmers has been a long stated goal of the Zimbabwean government, although little progress has been made until recently. How land acquisition and resettlement is implemented is especially important because of the size and economic significance of Zimbabwe’s agricultural sector. Banks and supplier relationships are also affected, since land is often collateralized to obtain working capital. A draconian land reform program would leave creditors with little recourse. With the input of the international donor community, various principals and parameters that would govern the land acquisition and resettlement process were agreed to at the September 1998 Land Reform Conference in Harare. Despite politically motivated outbursts to the contrary, the government has continued to adhere to these agreements (i.e., willing seller/willing buyer and full market compensation) in all farms acquired under the program to date.

More recently, progress on land reform has been slow, primarily due to funding and resource constraints caused by Zimbabwe's economic and budget troubles. In April 1999, the Government of Zimbabwe, with donor assistance, set up a technical support unit to embark on a two-year inception phase plan beginning in April 1999 to accelerate the land acquisition and resettlement process. At the end of 1999, about 1700 families had been relocated.

Privatization

The donor community and the multilateral financial institutions agree that Zimbabwe's record on privatization has been poor. Sustained pressure by these outside groups has brought few results because the government did not have a well-defined privatization program to govern the process. The IMF has made progress on privatization a condition for the disbursal of additional tranches of its standby credit facility, but continued delays are expected. As part of the ongoing commercialization/privatization program, all parastatals must now pay taxes and declare dividends.

A central problem in the privatization effort has been the absence of a single organizational entity with overall responsibility for the design and implementation of the program. Recently, the government has approved and is setting up an independent unit, based in the President's office, that will be charged with identifying public enterprises to be privatized and expediting the sales process.

Zimbabwe has privatized several of its agricultural marketing boards. The Cotton Company of Zimbabwe (COTTCO, formerly the Cotton Marketing Board) and Dairiboard of Zimbabwe (DZL, formerly the Dairy Marketing Board) were privatized in 1997 through share floats on the Harare Stock Exchange. The Zimbabwe government retained a 25 percent interest in COTTCO and a 40 percent interest in Dairiboard. In the last quarter of 1999, the Rainbow Tourism Group, a parastatal involved in tourism was privatized with the government retaining a 30 percent equity share. The group owns several hotels, the Harare International Convention Center, and a transportation company.

A stated goal of privatization in Zimbabwe has been to increase black ownership of the nation's commercial assets. The National Investment Trust (NIT) was set up to facilitate the participation of the economically disadvantaged indigenous population in the privatization process, though funds budgeted for this purpose have never been adequate. As an ad hoc solution, the government forced postal workers and the National Social Security Fund to buy and hold shares on NIT's behalf. On several occasions, critics have asserted that the implementation of the government's privatization/indigenization policy has been slow, uneven, and tends to favor government friends and ruling party allies at the expense of independent black entrepreneurs. U.S. firms also have complained about official attempts to dictate their choice of local partners (as required in many reserved sectors) under the guise of the government's indigenization policy.